

# Welcome to the CMA Workshop



November 2007  
Ottawa, Ontario

© 2006 IBM Corporation

# AGENDA

- 10:45-12:00
  - Introduction to Closed Loop Model
  
- 1:30-2:30
  - Case Study
  - Q&A
  
- 3:00-4:00
  - SAS Presentation
  - Q&A



**FMI – Professional Development Week 2007**  
**Event 2-5 CMA Workshop**

**Planning First: Implementing a New Approach  
to Corporate Budgeting**

**Robert Torok**  
**Executive Consultant**  
**IBM Global Business Services**  
**Toronto, Ontario**


November 2007  
Ottawa, Ontario

## Planning First: Implementing a New Approach to Corporate Budgeting

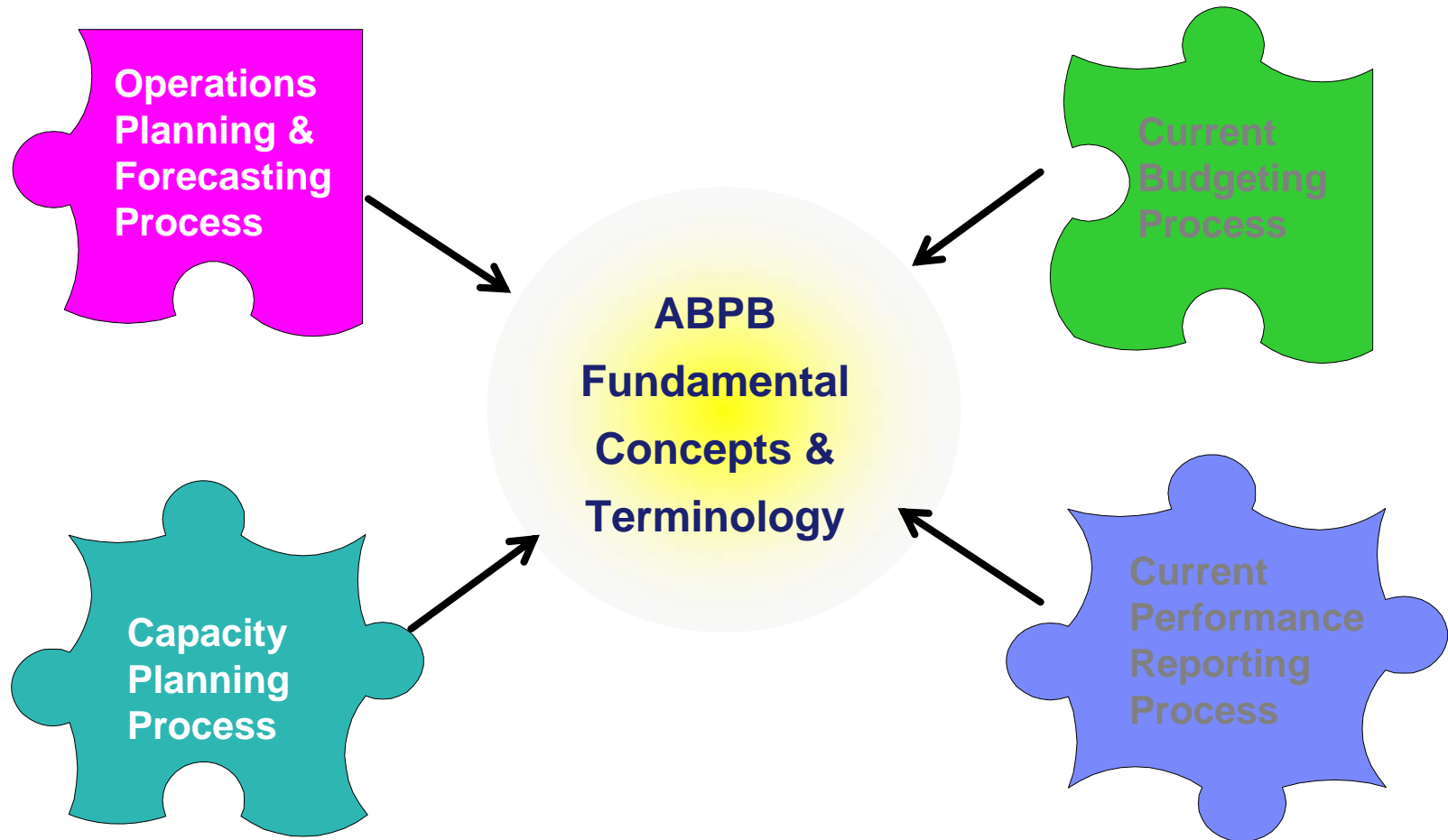
Today, one finds strong advocates of simply eliminating the periodic budgeting process. But this radical approach seems to fly in the face of the needs of most corporations who, in the light of new and more stringent regulatory requirements, are enhancing and increasing the focus placed on planning and budgeting.

The approach presented in this session, the CAM-I Activity-Based Planning & Budgeting Closed Loop Model, reflects a powerful new approach that speaks to many of the problems associated with traditional budgets and budget processes ... while retaining and enhancing the benefits.

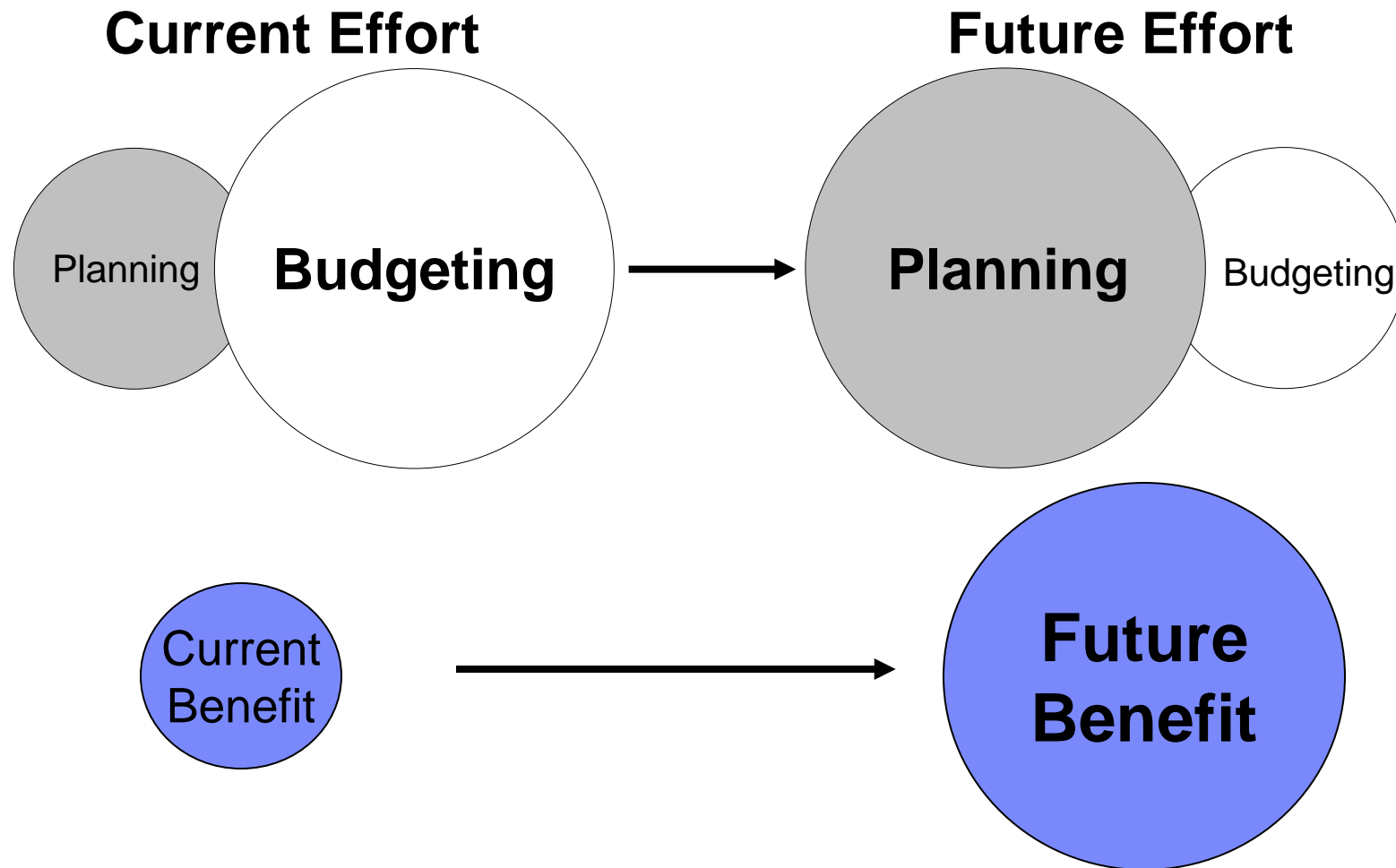
## So Where Does That Take Us?

- Clearly, current processes are broken
  - Blowing it up is NOT the way to go
  - Key drivers of bad budgets
    - Lack of planning
    - Lack of linkage to business operations
  - There IS a better way:
    - Draws on operational planning, capacity planning
    - Incorporates performance management
    - Leads to a P&B process valuable to both languages: operations and finance
- 
- Drives arbitrary decisions
  - Leads to meaningless detailed budgets

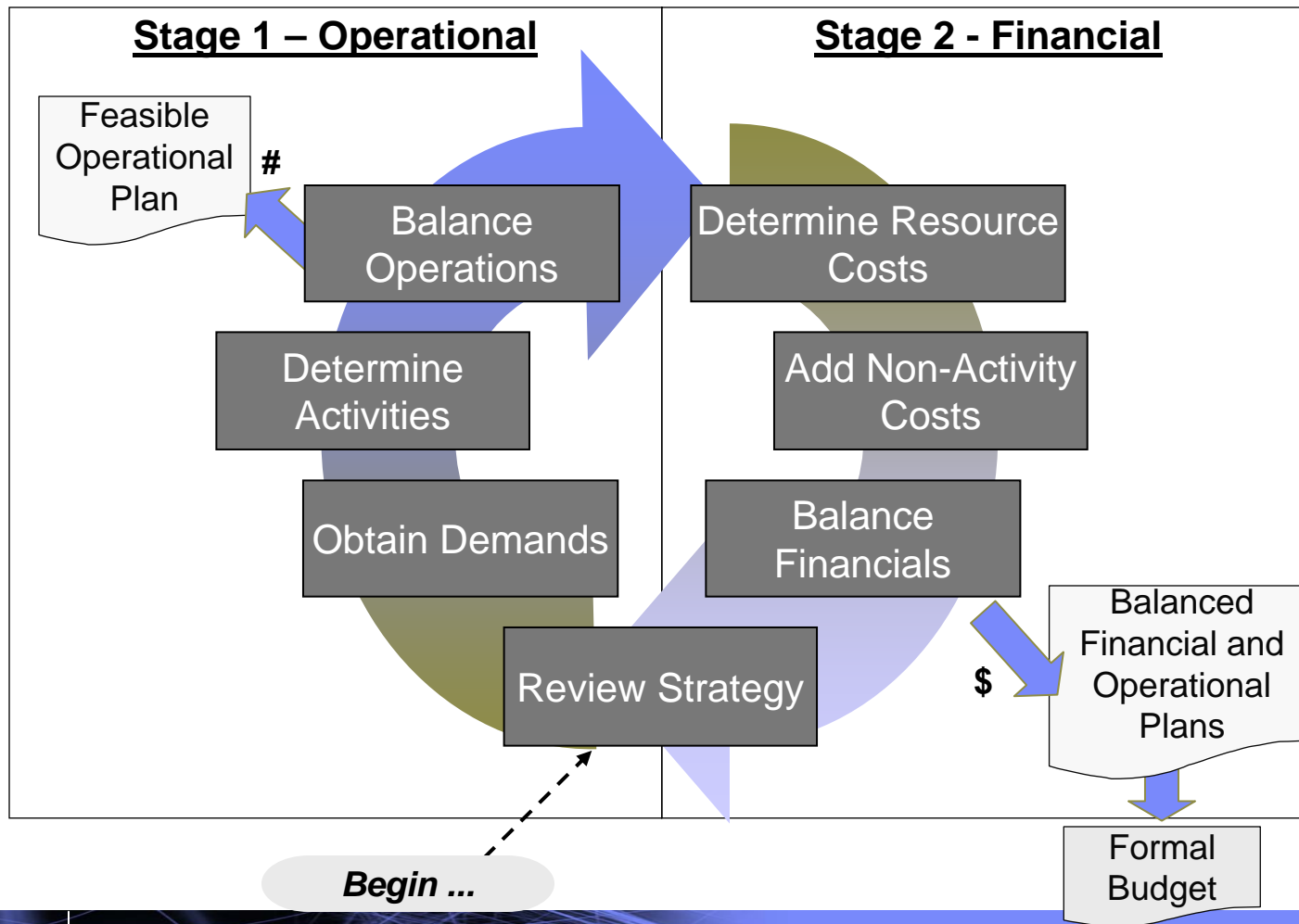
# The Inter-Relationships of ABPB



## The Shift in the Relative Effort from Budgeting Towards Planning

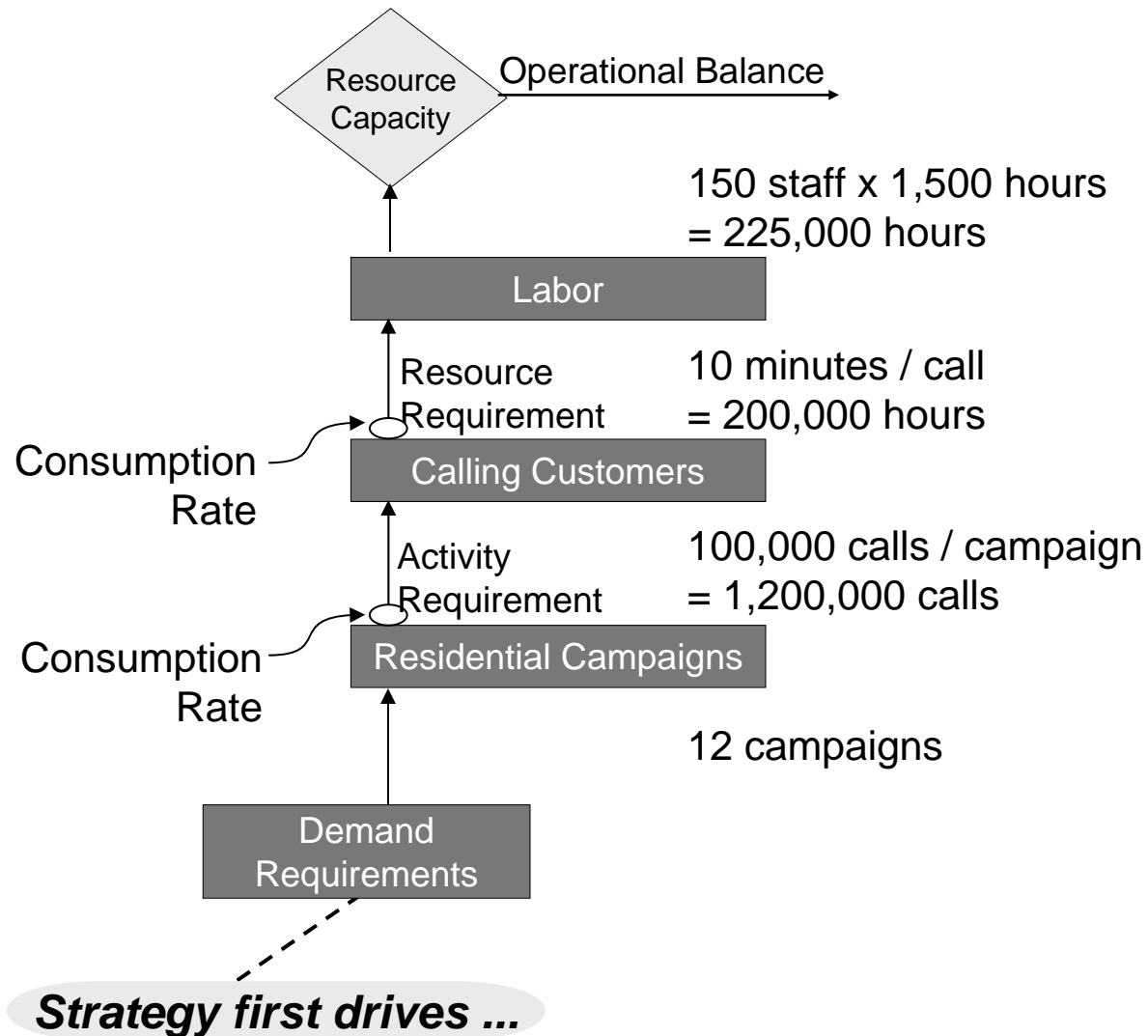


# Overview of the CAM-I ABPB Closed-Loop Model

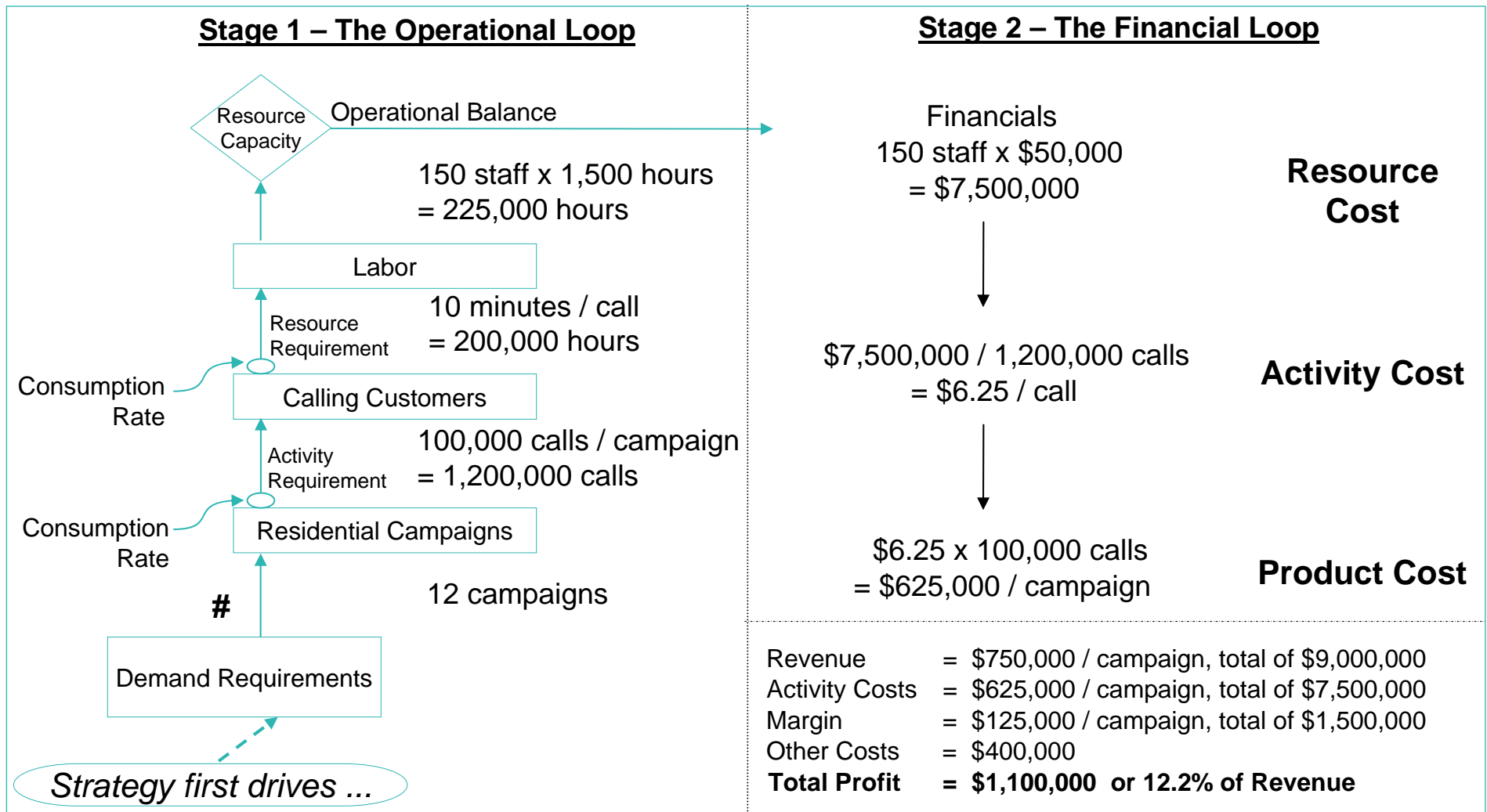


*Begin ...*

# Stage 1 –Operational Balance

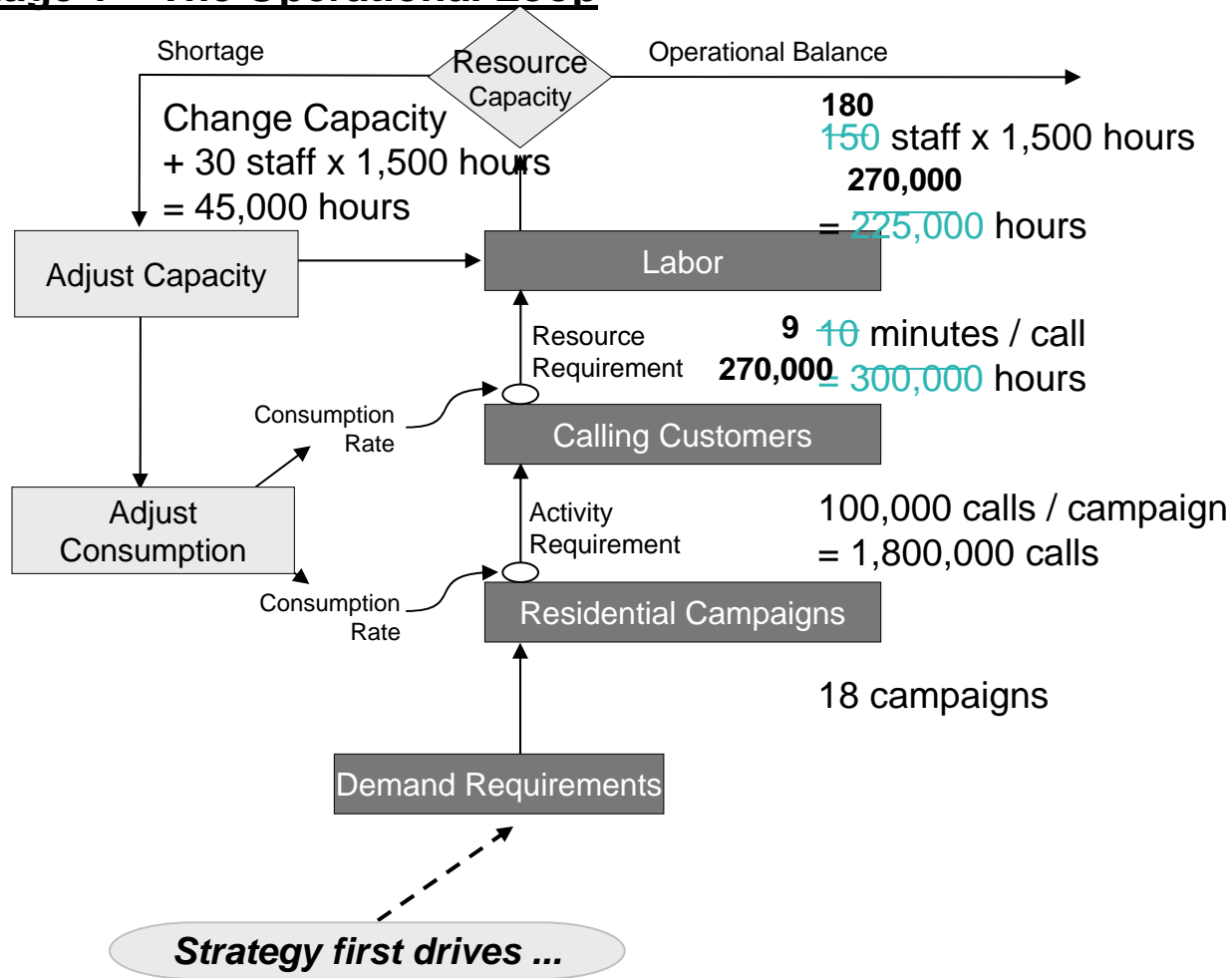


# Obtaining Financial Balance



# The Effect of a Changed Consumption Rate

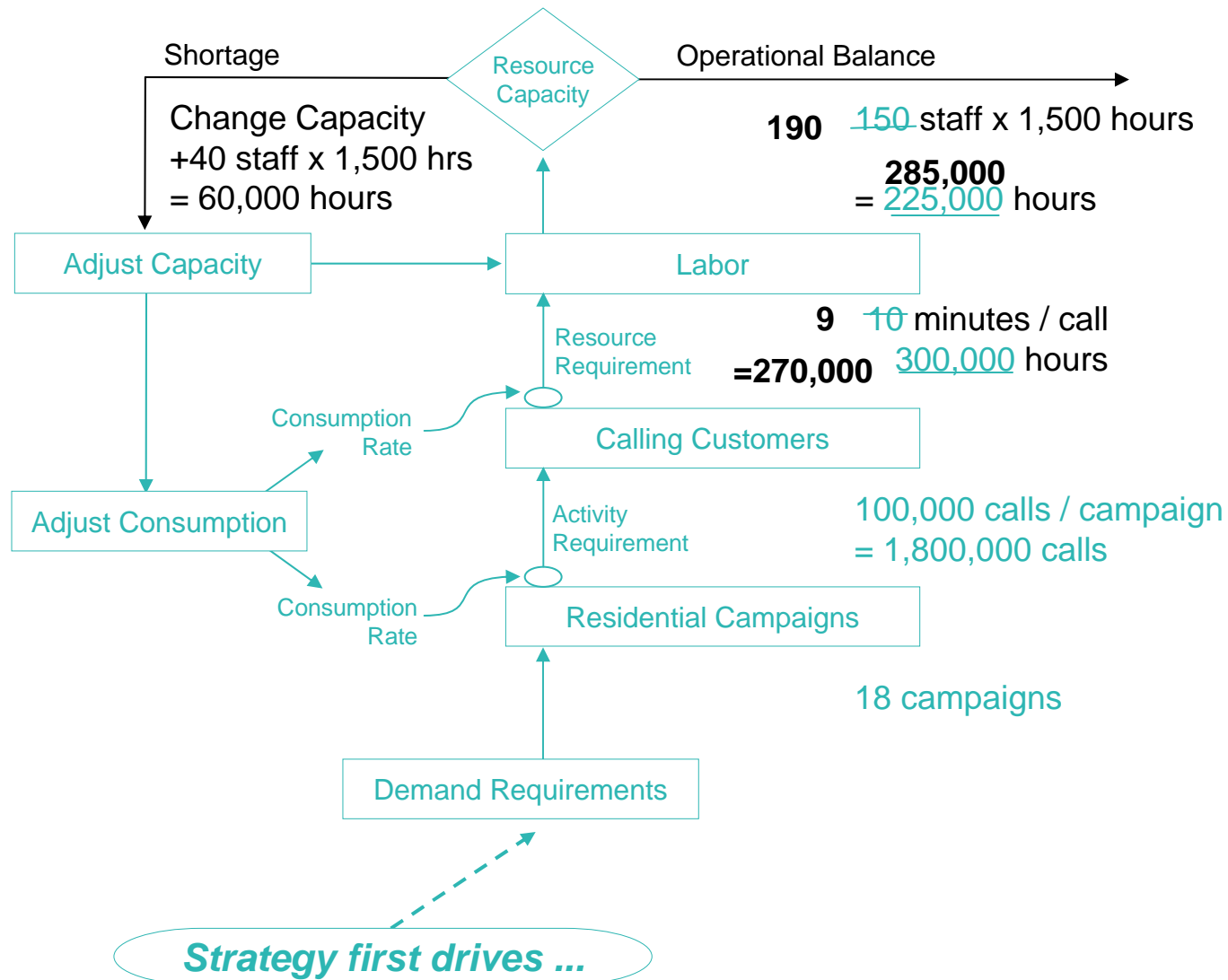
## Stage 1 – The Operational Loop



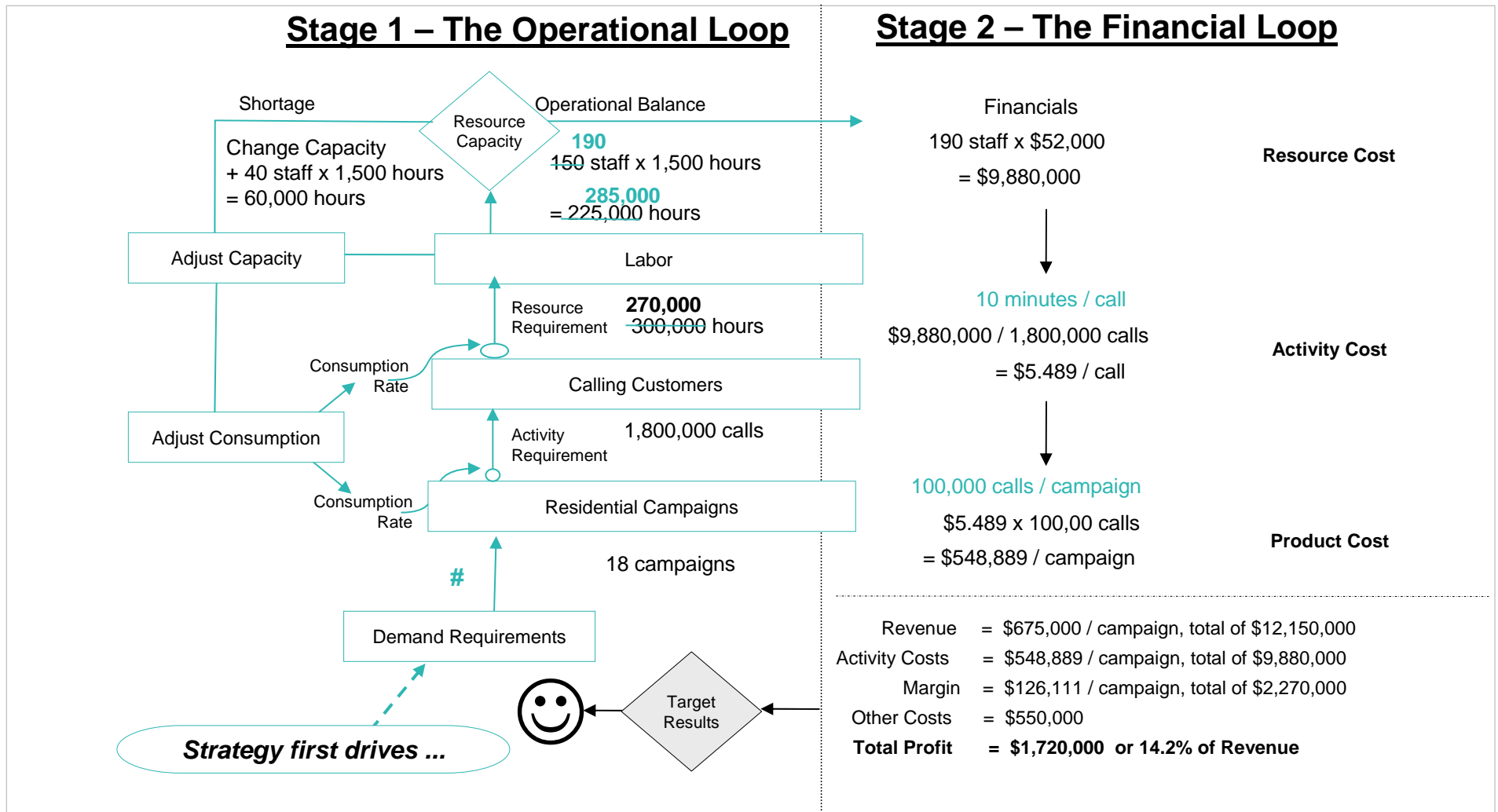
*Strategy first drives ...*

# The Addition of Buffer Capacity

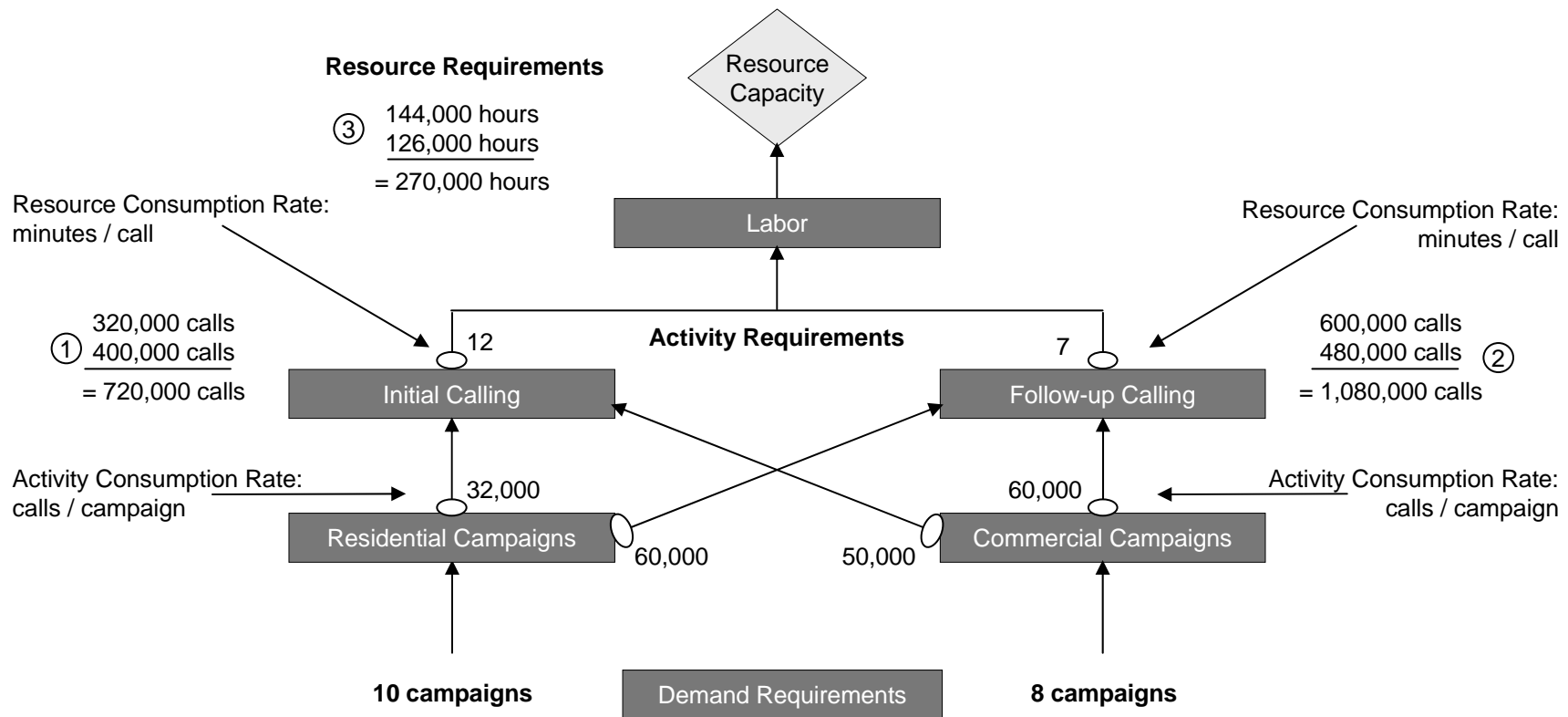
## Stage 1 – The Operational Loop



# Achieving Financial and Operational Balance



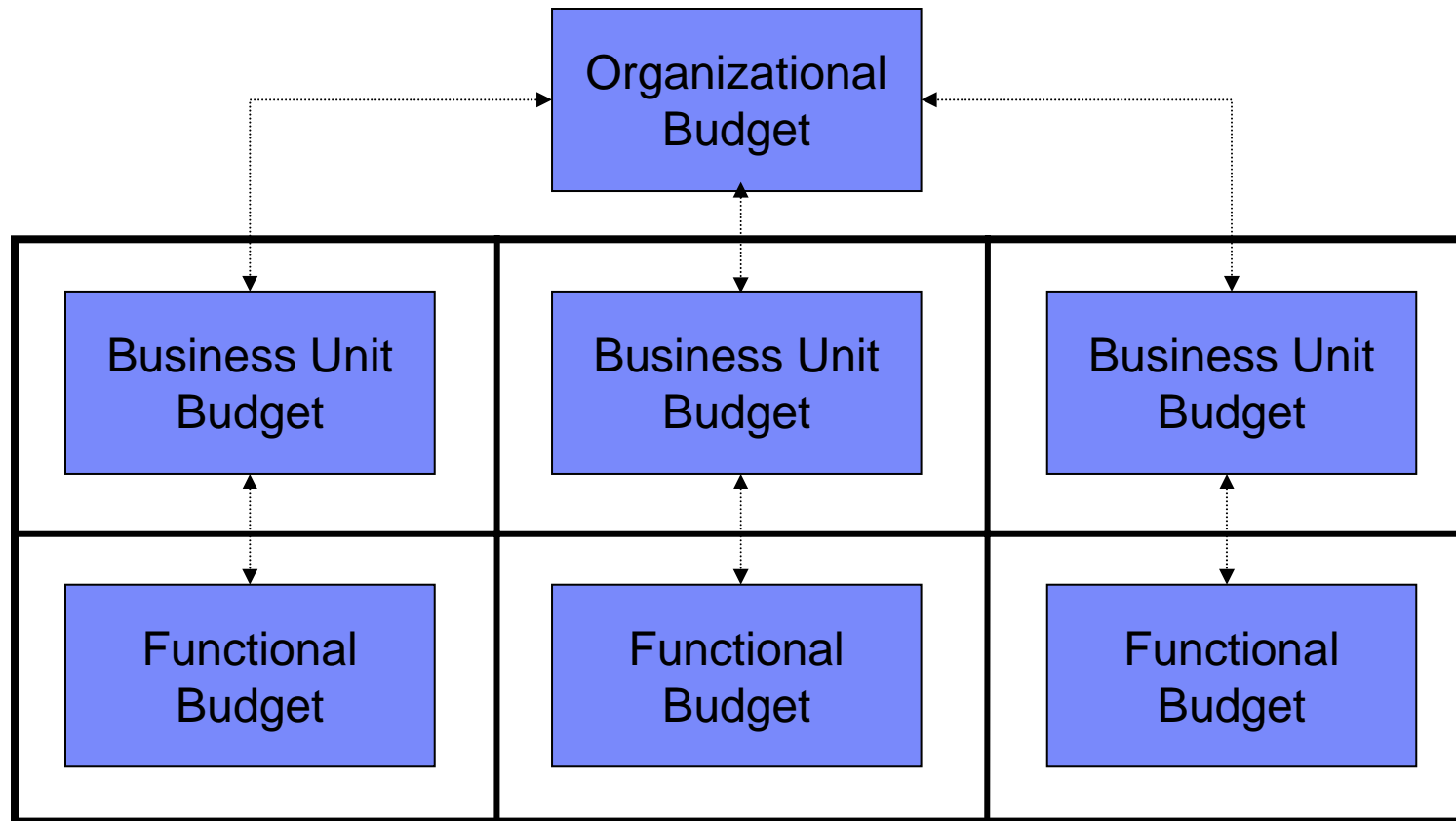
# Extension of the Closed-Loop Model to Two Activities and Two Services



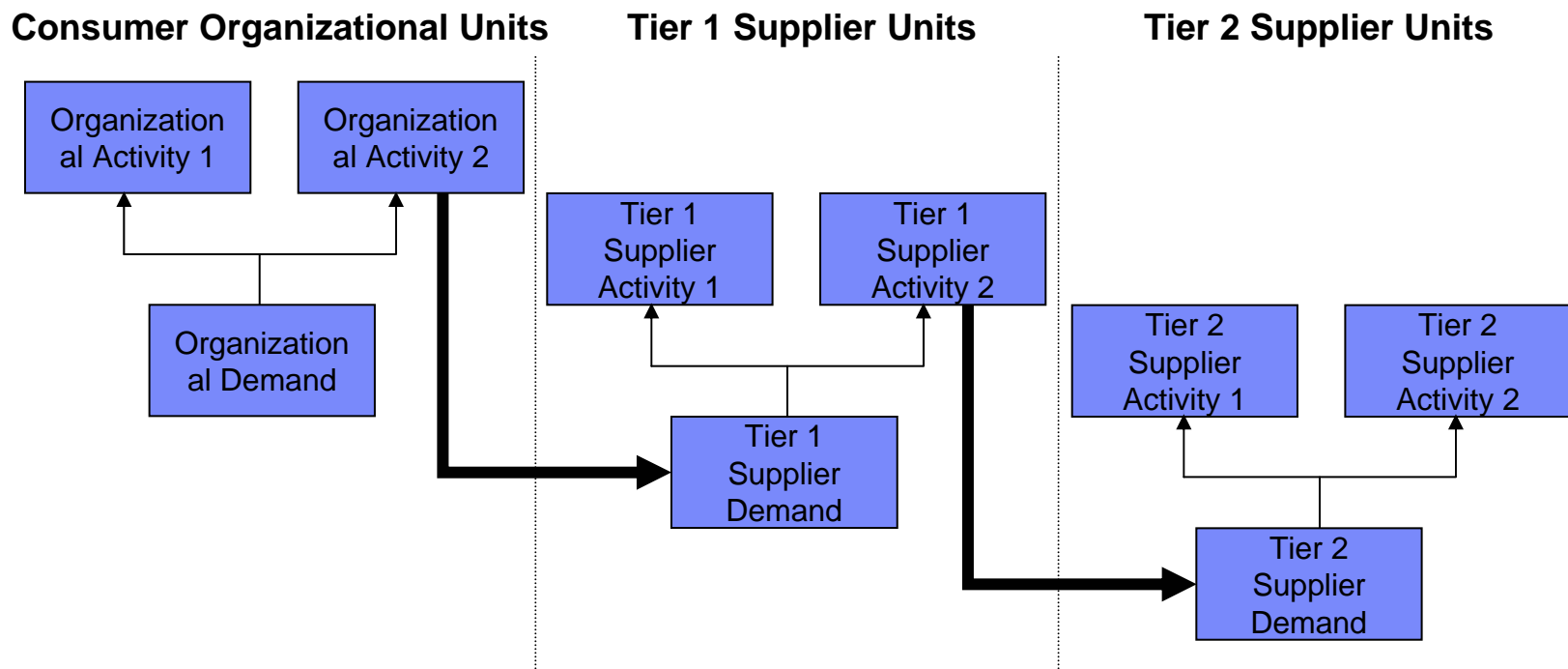
- ① 10 residential campaigns at 32,000 initial calls each plus 8 commercial campaigns at 50,000 initial calls each.
- ② 10 residential campaigns at 60,000 follow-up calls each plus 8 commercial campaigns at 60,000 follow-up calls each.
- ③ 720,000 initial calls at 12 minutes/call ÷ 60 minutes per hour = 144,000 hours.  
1,080,000 follow-up calls at 7 minutes per call ÷ 60 minutes per hour = 126,000 hours.



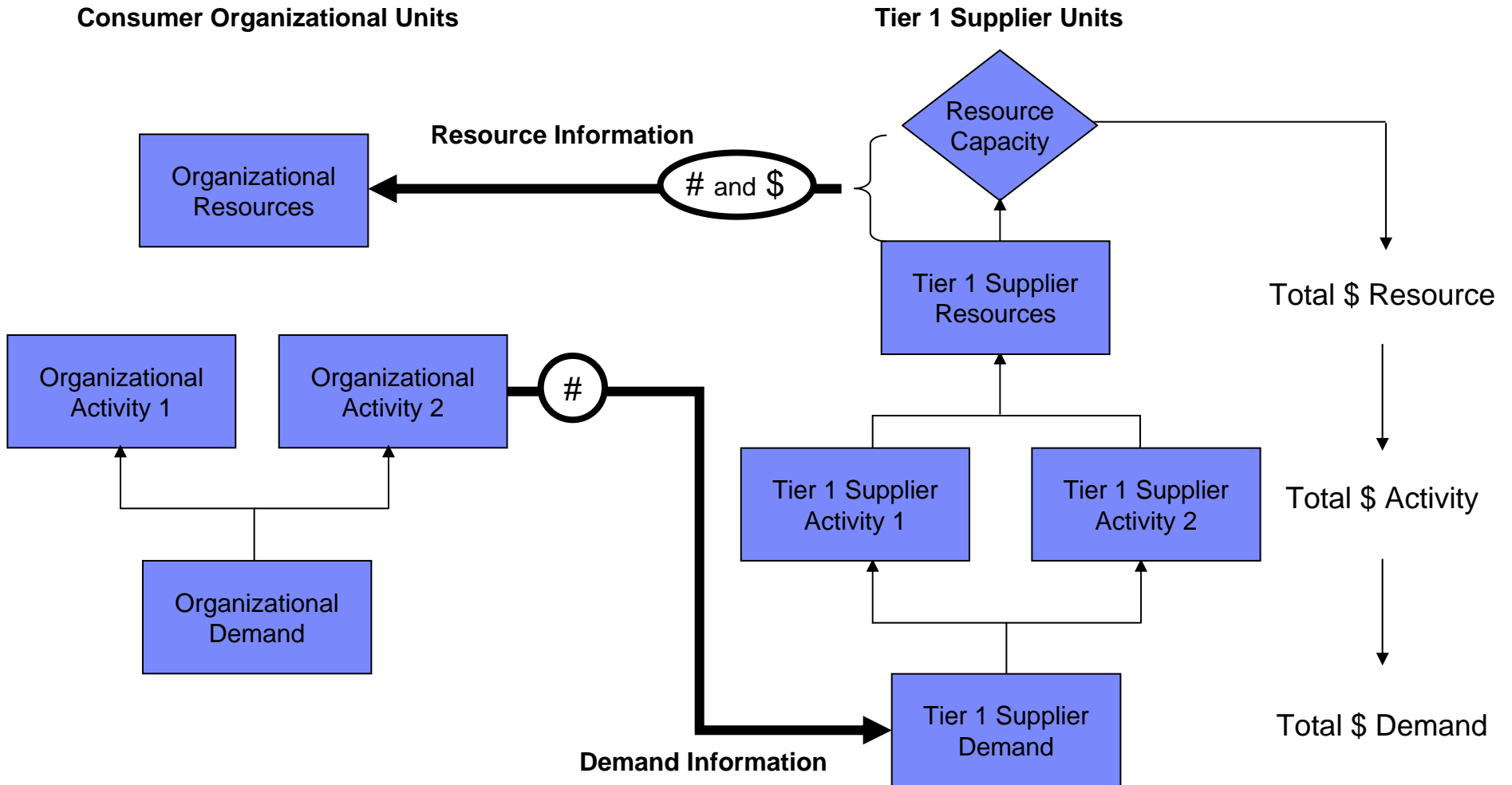
# Traditional Budget Walls



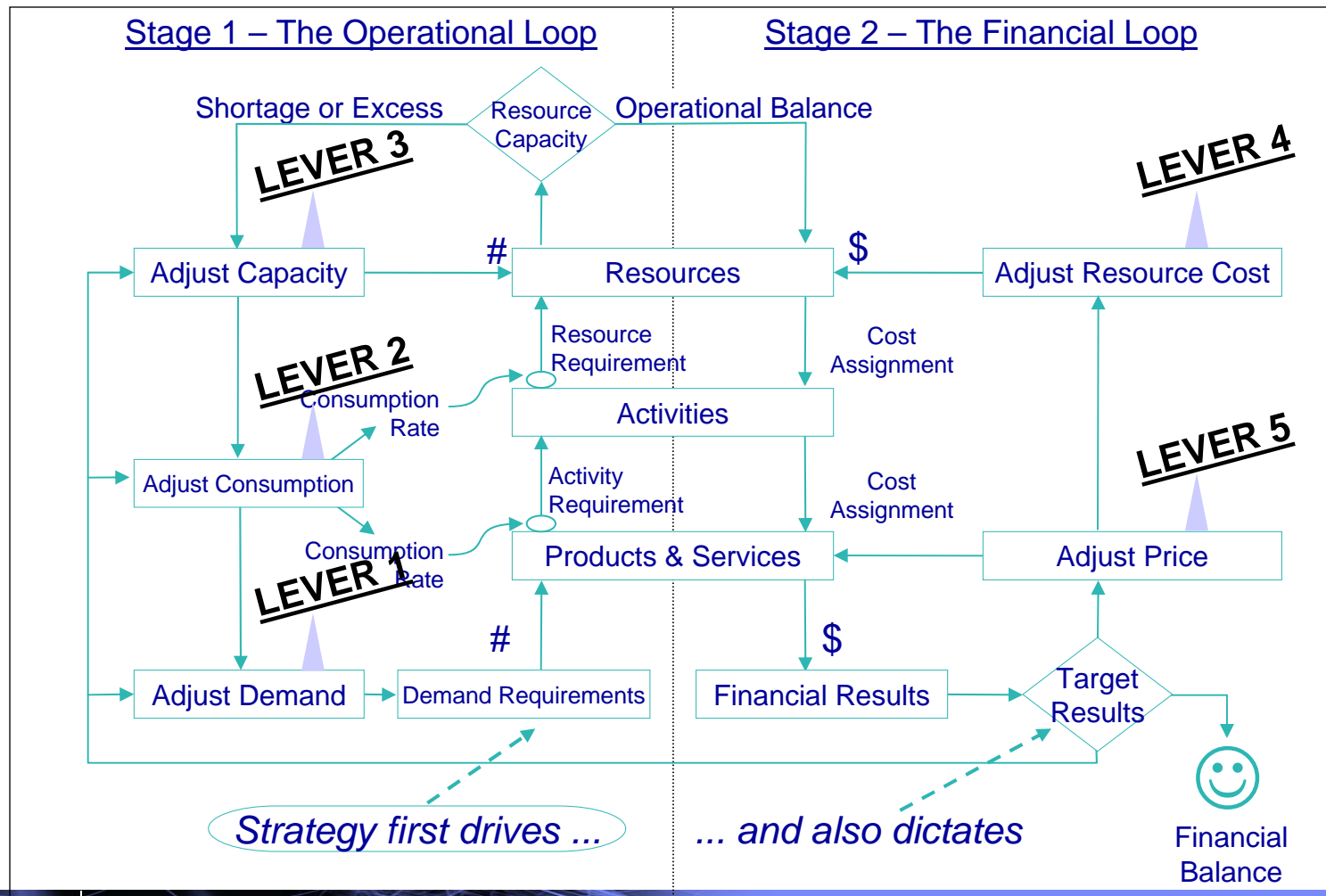
# Cascading Demands From Consumer to Supplier Closed-Loop Models



# Feedback Through Networked Closed-Loop Models



# The Five Levers of the CAM-I ABPB Closed-Loop Model





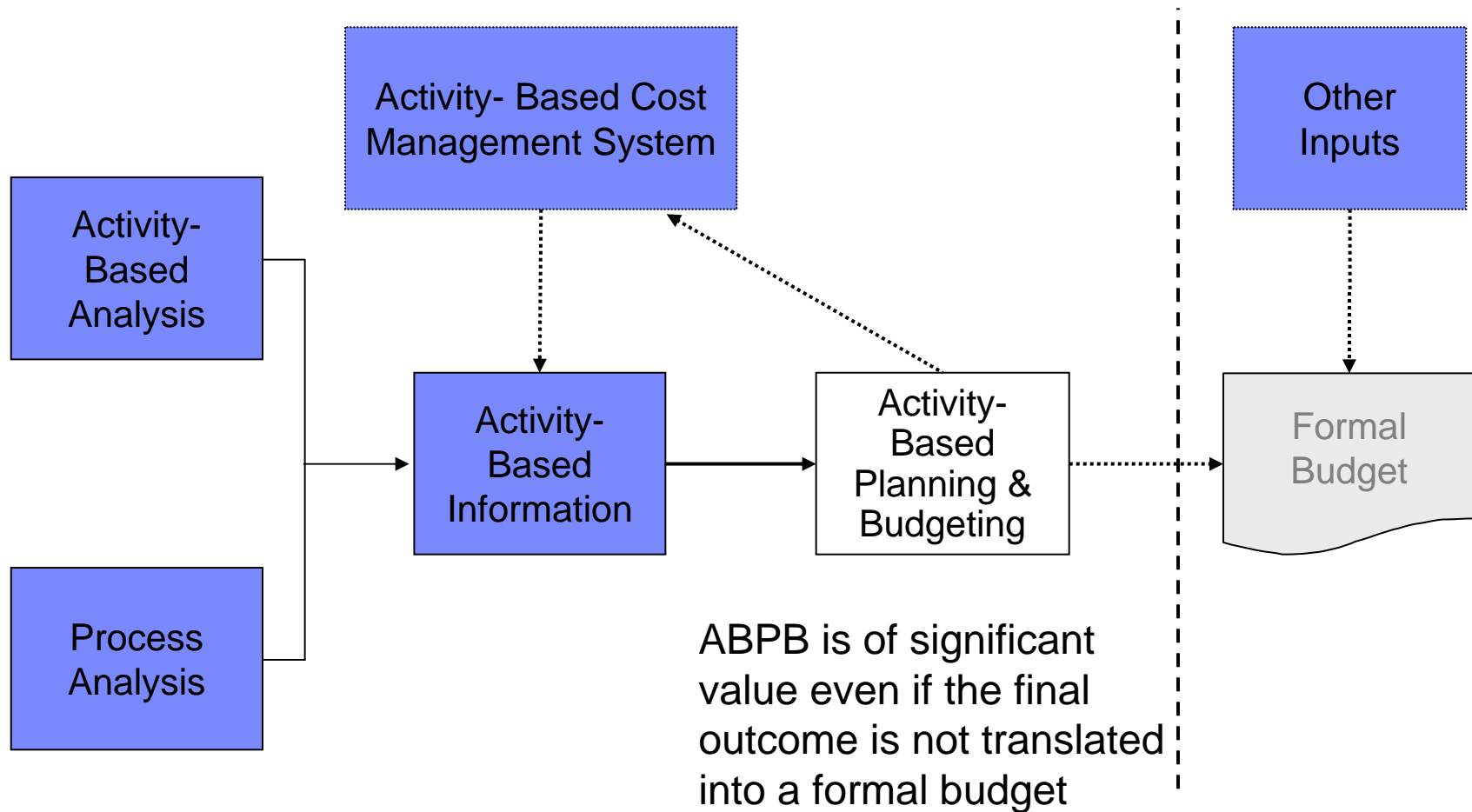
# Impact of Progressively Adding in Actual Performance for Each Lever

	Campaigns		Per Campaign	Calls			Staff			Buffer		Salary/ Staff	Resource Costs	Activity \$/Call	Per Campaign		Other Costs	Total Profit	% of Rev.		
	#	Revenue/ Campaign		Total	Min./ Total	Total	Total	Hrs/ Available	Hours	Hrs	Staff				Cost	Profit					
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	FTE	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)		
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	
		(A x B)		(A x D)		(E x F)	(G / 60)			(I x J)	(K - H)	(L / J)		(I x N)	(O / E)	(D x P)	(B - Q)		(C-O-S)	(T / C)	
<b>Base Scenario</b>	12	\$750	\$9,000	100	1,200	10	12,000	200	150	1,500	225	25.00	16.7	\$50	\$7,500	6.25	\$625.0	\$125	\$400	\$1,100	12.2%
<b>Lever 1 - Demand Quantities</b>																					
Increase Campaigns Add Staff to maintain balance	3		\$2,250		300		3,000	50													
									30		45	-5.00	-3.3		\$1,500						
<b>Summary</b>	15	\$750	\$11,250	100	1,500	10	15,000	250	180	1,500	270	20.00	13.3	\$50	\$9,000	6.00	\$600.0	\$150	\$400	\$1,850	16.4%
<b>Lever 2 - Consumption Rates</b>																					
10% Activity consumption increase 5% drop in Resource consumption rate				10	150		1,500	25													
															\$500						
<b>Summary</b>	15	\$750	\$11,250	110	1,650	10	15,675	261	190	1,500	285	23.75	15.8	\$50	\$9,500	5.76	\$633.3	\$117	\$400	\$1,350	12.0%
<b>Lever 3 - Resource Capacity</b>																					
Work overtime to use less people									-10		-15	-15.00	-10.0								
										50	9	9.00	-4.4		-\$500						
<b>Summary</b>	15	\$750	\$11,250	110	1,650	10	15,675	261	180	1,550	279	17.75	11.5	\$50	\$9,250	5.61	\$616.7	\$133	\$400	\$1,600	14.2%
<b>Lever 4 - Resource Unit Cost</b>																					
Salary Increase														\$2	\$360						
<b>Summary</b>	15	\$750	\$11,250	110	1,650	10	15,675	261	180	1,550	279	17.75	11.5	\$52	\$9,610	5.82	\$640.7	\$109	\$400	\$1,240	11.0%
<b>Lever 5 - Product / Service Pricing</b>																					
Reduce Price of Each Campaign			-\$25																		
<b>Summary</b>	15	\$750	\$11,250	110	1,650	10	15,675	261	180	1,550	279	17.75	11.5	\$52	\$9,610	5.82	\$640.7	\$84	\$400	\$865	8.0%

## Evolution and Use of ABPB

- The CAM-I ABB Closed Loop can co-exist with traditional line item or functional department focused budgets
- Utilize best of both approaches and tools

# The Evolution of Activity-Based Planning and Budgeting



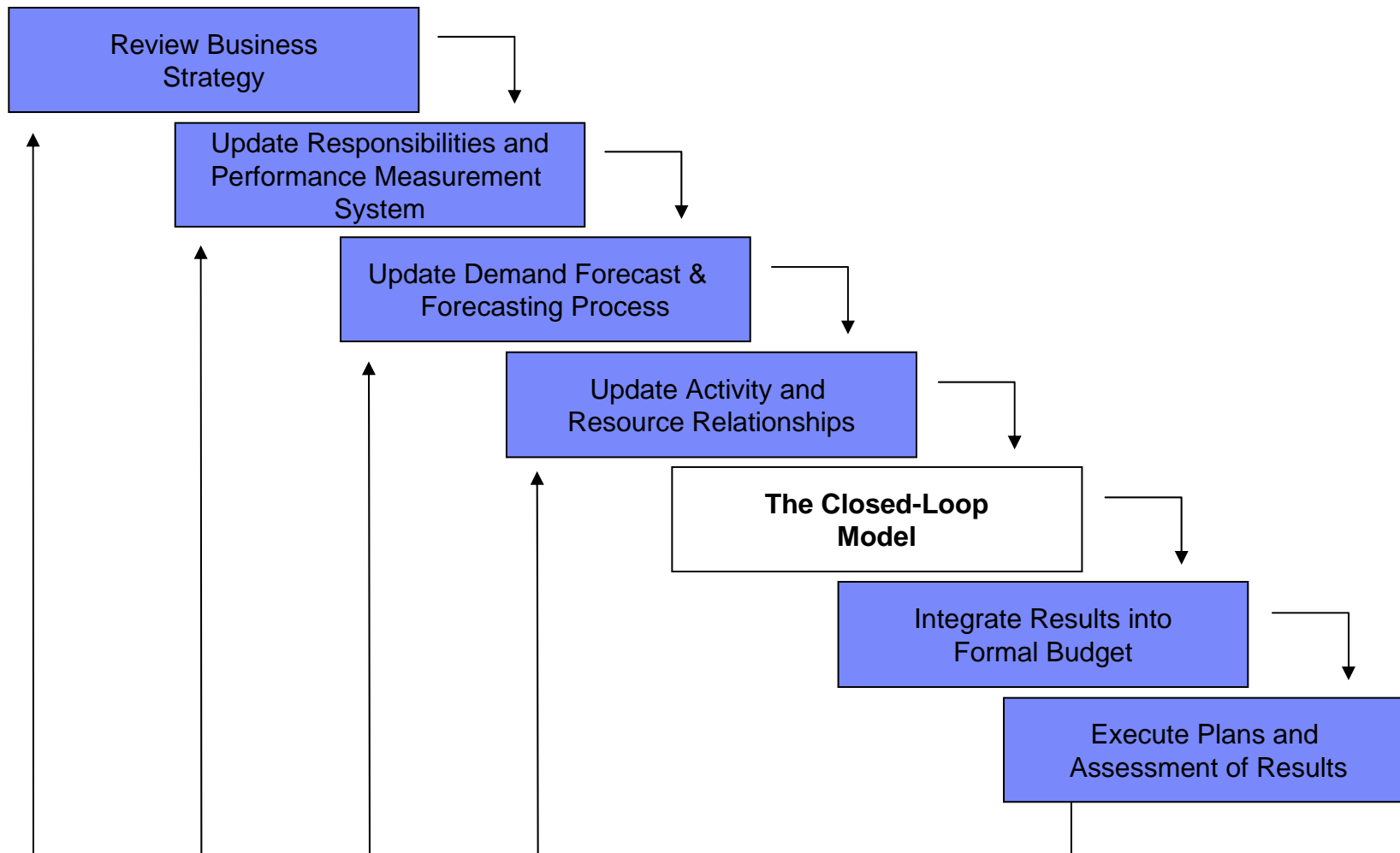
## The CAM-I ABPB Closed-Loop Model

- Better planning means better budgeting
- It is not just about cost
- Activity Based Planning & Budgeting is not ABC in reverse
- ABPB complements & supplements traditional budgeting
- Driven by products, services, programs & projects; demand volume drives activity and resource requirements
- Demand driven – Capacity focused

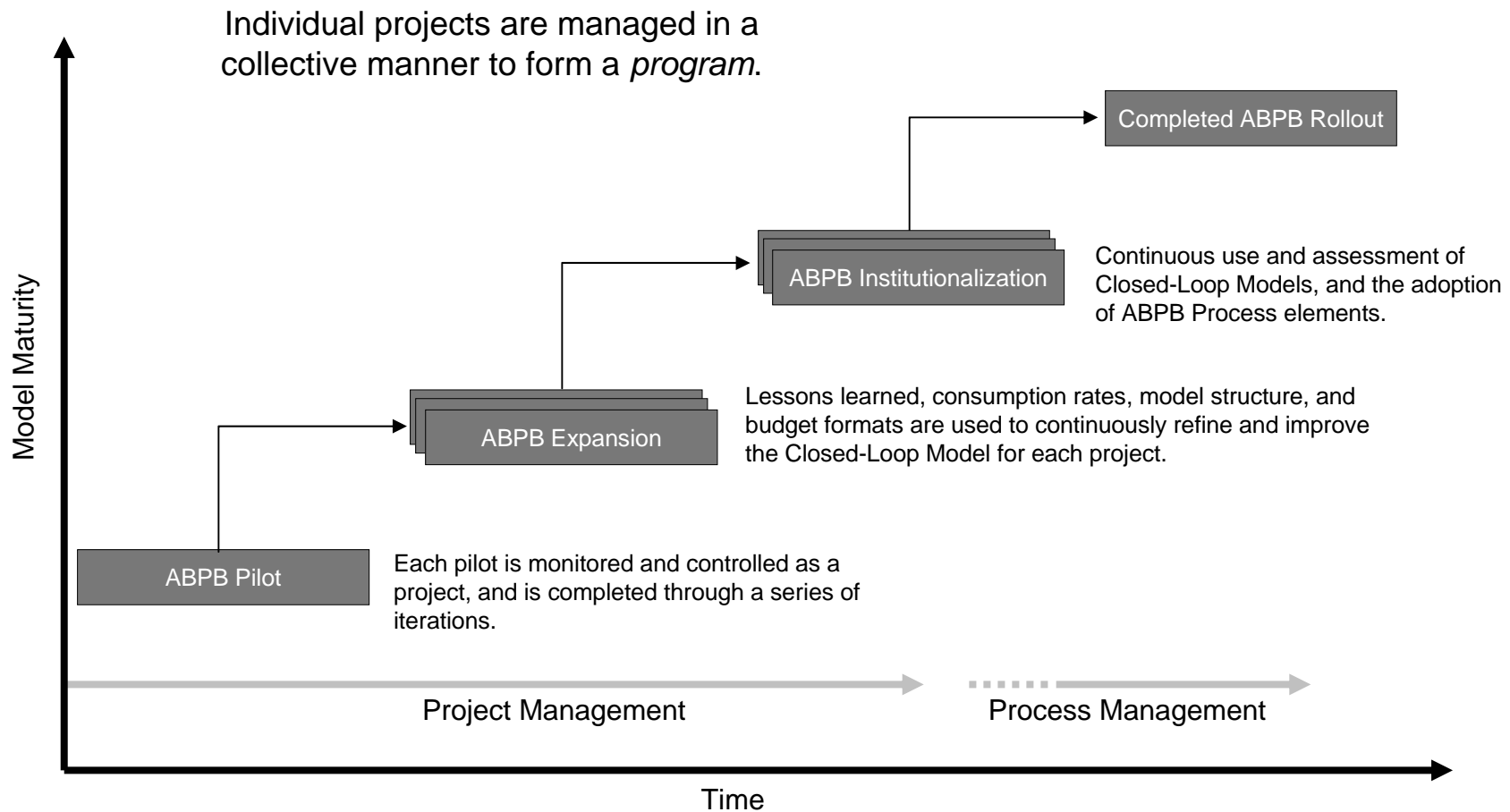
## ABPB is more than a Calculation Tool

- Relies on a series of management processes to operate effectively
- Implemented using sound & proven project management approaches

# The CAM-I ABPB Process



# The ABPB Implementation Program







## Budget Issues Overcome by The Closed-Loop Model

### *Preparing the Budget*






1. Optimistic sales forecast
2. Extrapolating prior periods' numbers
3. Shrouded in secrecy
4. Lack of ownership
5. Done at the last minute

### Overcome?

- |  |     |
|--|-----|
|   | Yes |
|   | Yes |
|   | Yes |
|  | Yes |
|  | No  |






## Budget Issues Overcome by The Closed-Loop Model

### *Effectiveness and Efficiency*

	Overcome?
6. Too long a cycle	 Yes
7. Too many iterations	 Yes
8. Too fragmented a process	 Yes
9. Uncertain costs not included	Not explicitly
10. Budget not current enough	 Yes
11. Capacity problems not addressed	 Yes
12. No review of prior periods' budget assumptions	No

## Budget Issues Overcome by The Closed-Loop Model

### *People*

	Overcome?
13. Loss of credibility	 Yes
14. Process given little thought	 Yes
15. Knowledge of decision makers	Not fully
16. Lack of communication	 Yes
17. Lack of consistency between years	 Yes
18. Many unpublished expectations	Not fully
19. Employee buy in	 Yes
20. Uneven requirements on participants	No

## Questions ?



### Contact Information:

Email: [robert.torok@ca.ibm.com](mailto:robert.torok@ca.ibm.com)

Tel.: 416.478.3410

Email: [cdiotte@ca.ibm.com](mailto:cdiotte@ca.ibm.com)

Tel.: 613.249.2209